WARRINGTON
ASSET MANAGEMENT

June 2006 Market Commentary

We entered June with a partial position of very wide put spreads which were deep-in-the-money due to the dramatic decline in the S&P during the month of May. At the beginning of June, the S&P rallied for a few days then resumed the downward trend, eventually falling 5.8% from the highs of the month to the new low price for the year, made in the middle of June. This volatility caused our long put spread to go even deeper in-the-money. At the same time we purchased puts below the market to hedge our downside exposure. We also purchased inexpensive out-of-the-money calls to capitalize on a snapback rally. This rally did occur, with the S&P advancing 3.4% in the two days right before option expiration. We realized a profit on our June position after all this volatility and carried only a very light position of June End-of-Month options for the remainder of the month. The small position size was appropriate as we expected an increase in volatility as we waited for the Federal Reserve to release its Monetary Policy statement on June 29th.